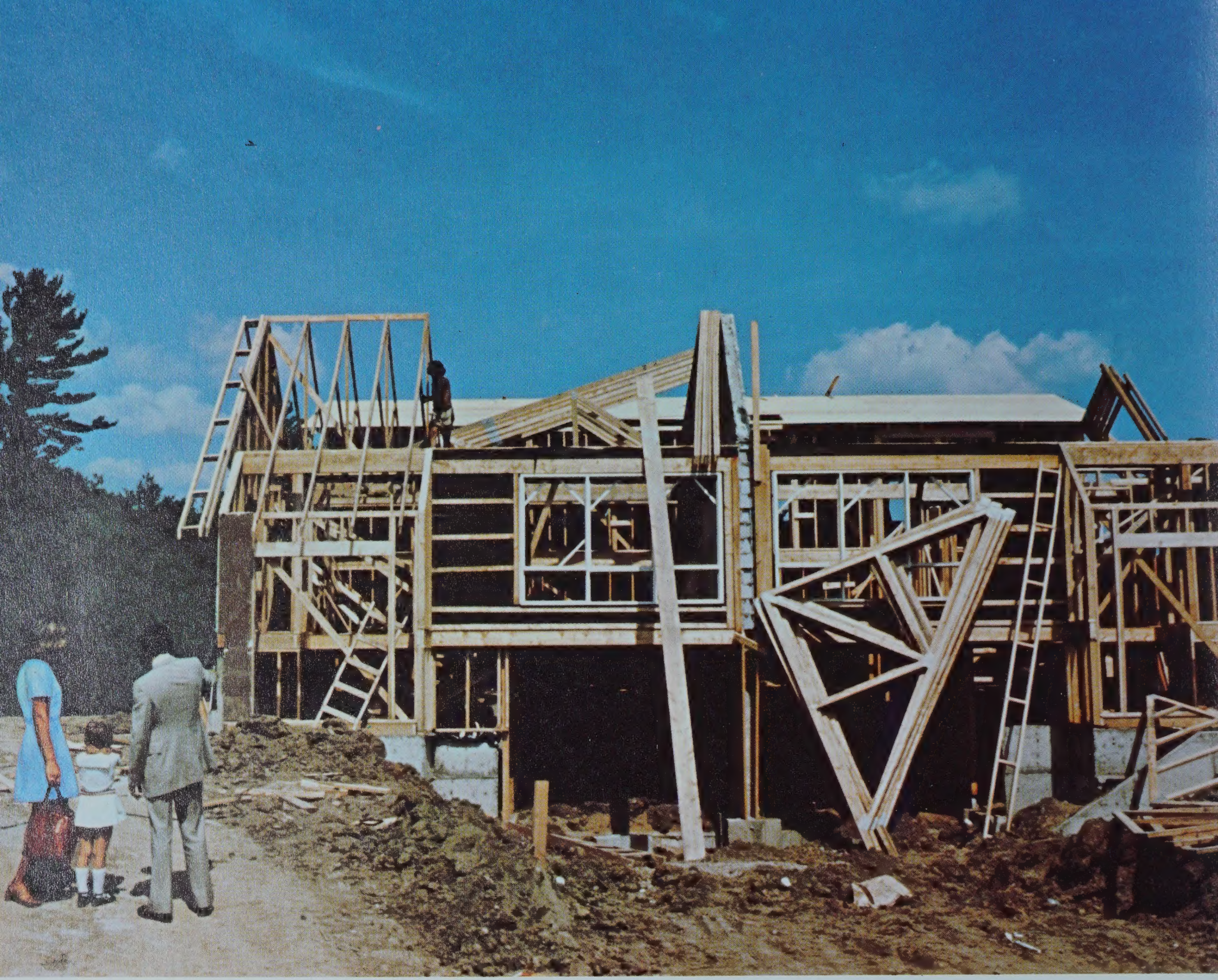
THE
Consumers' Gas
COMPANY

127TH ANNUAL REPORT for the year ended September 30, 1975



Serving the growing residential market

These new houses under construction will be served by natural gas. During fiscal 1975 about 20,000 new residential customers were added to the growing number of people relying on the Company for their home heating needs. In our service area more than 1¼ million people in single family homes and ¾ of a million people residing in apartment complexes use clean burning natural gas for their heating comfort. In addition, your Company provides energy to hospitals, churches, government buildings, commercial establishments and industry. According to the most recent government figures, natural gas supplies nearly 40% of the total industrial energy requirements of Ontario. Consumers' Gas provides more than one third of this gas.

Natural gas has been an important element in the economic development and strength of the communities we serve.

"Commune Bonum"—for the good of the community

The Consumers' Gas Company

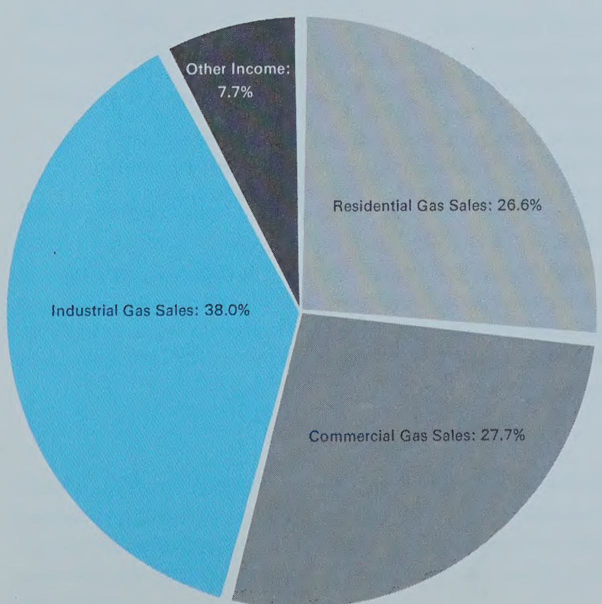
127th Annual Report for the year ended September 30, 1975

Highlights

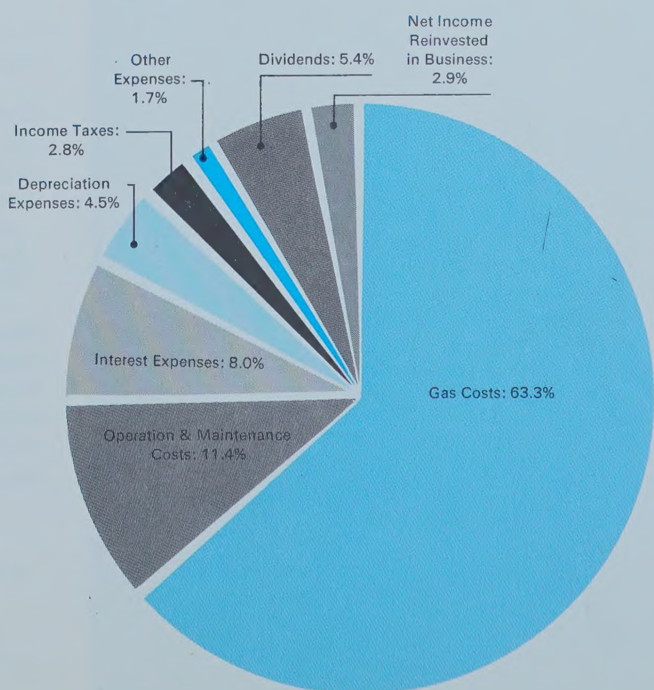
	1975	1974	% Increase
Basic earnings per common share (income before extraordinary item)	$1.65	$1.50	10.0
Dividends declared per common share	$1.00	$ .91	9.9
Net income for the year available for dividends and reinvestment in the business	$ 32,105,000	$ 26,397,000	21.6
Gas Sales – Mcf.	311,310,000	289,886,000	7.4
Number of active customers	491,242	472,231	4.0
Total revenues	$380,077,000	$282,756,000	34.4
Property, plant and equipment less accumulated depreciation and depletion	$546,130,000	$510,751,000	6.9

THE 1975 REVENUE DOLLAR

Where it came from



Where it went



Directors and Officers

DIRECTORS

J. Douglas Gibson, O.B.E.*
Chairman of the Board—The Consumers' Gas Company, Canadian Reinsurance and Canadian Reassurance Companies
Chairman of the Board and Managing Director—Cygnus Corporation Limited
Director—Home Oil Company Limited, The Imperial Life Assurance Company of Canada, Harding Carpets Limited, Steel Company of Canada Limited, Bell Canada, National Trust Company, Limited, Moore Corporation Limited, Northern Electric Company Limited

G. E. Creber*
President and Chief Executive Officer—The Consumers' Gas Company
Director—Home Oil Company Limited, Scurry-Rainbow Oil Limited, The Huron and Erie Mortgage Corporation, The Canada Trust Company, Rothmans of Pall Mall Canada Limited

J. C. McCarthy*
Vice-Chairman of the Board—The Consumers' Gas Company
Director—The Toronto-Dominion Bank

J. K. Macdonald*
Chairman of the Board—Confederation Life Insurance Company
Director—Canada Permanent Companies, The Dominion Insurance Corporation

A. R. Poyntz*
Chairman of the Board—The Imperial Life Assurance Company of Canada, M.E.P.C. Canadian Properties Limited, Impco Properties Limited
Director—The Investors Group

W. H. Zimmerman, Q.C.
Vice-Chairman—The Eaton Group of Mutual Funds
Director—Home Oil Company Limited, The Becker Milk Company Limited, Inter-Provincial Diversified Holdings Ltd., Eaton Financial Services Limited

Hon. T. D'Arcy Leonard, C.B.E.*

R. H. Carley, Q.C.
Partner—Carley, Lech & Lightbody, Solicitors
Director—Kesco Holdings Limited, Raybestos-Manhattan (Canada) Ltd.

Noah Torno, M.B.E.
Chairman of the Board and Chief Executive Officer—Jordan Valley Wines Limited
Director—Cygnus Corporation Limited, The Canada Trust Company, Carling O'Keefe Limited, Cemp Investments (Ontario) Limited

D. B. Mansur, C.B.E.
Director—Royal Insurance Group

A. G. S. Griffin*
Chairman of the Board—Home Oil Company Limited, The Commercial Life Assurance Company of Canada, The Halifax Insurance Company, Scurry-Rainbow Oil Limited
Director—Canadian Corporate Management Company Limited, Canadian Industries Limited, Raymond International Inc., Triarch Corporation Limited, United Dominions Corporation (Canada) Limited, Victoria and Grey Trust Company, Waltec Enterprises Limited, National Film Board, I.C.I. Americas

H. E. Langford
Director—Home Oil Company Limited, The Dominion of Canada General Insurance Company, Empire Life Insurance Company, Victoria and Grey Trust Company, Scurry-Rainbow Oil Limited, E. L. Financial Corporation

G. W. Carpenter, P.Eng.
Executive Vice-President—The Consumers' Gas Company
Director—Home Oil Company Limited
President and Director—Tecumseh Gas Storage Limited

R. S. Paddon, Q.C.
General Counsel—The Consumers' Gas Company
Partner—Aird, Zimmerman & Berlis, Solicitors

Orian E. B. Low, Q.C.
Counsel—Low, Murchison, Burns, Thomas & Haydon, Solicitors
Chairman of the Board—Holo Investments Ltd., Ottawa Investment Management Co. Ltd.
Chairman of the Executive Board—Ottawa Gas Company
Member of the Ottawa Advisory Board of Guaranty Trust

F. H. Newman, P.Eng.
President—Newman Bros. Co. Limited

Charles S. MacNaughton
Chairman of the Board—Fry Mills Spence Limited
Chairman—Ontario Racing Commission
Director—Redpath Industries Limited, Canadian Cable Systems Limited, Laidlaw Transportation Limited, Bank of Montreal, Sportsmen's Mutual Fund Limited, Canadian Canners Limited, Dynast Forest Products Limited, Hambros Canada Limited

Ross F. Phillips
President and Chief Executive Officer—Home Oil Company Limited
President and Director—Scurry-Rainbow Oil Limited
Director—Calgary Power Ltd.
Member of the Calgary Advisory Board of Crown Trust Company

*Executive Committee Member

OFFICERS

J. Douglas Gibson
Chairman of the Board

***G. E. Creber**
President and Chief Executive Officer

***J. C. McCarthy**
Vice-Chairman of the Board

G. W. Carpenter
Executive Vice-President

K. J. Harry
Senior Vice-President

T. E. Gieruszczak
Vice-President Research and Special Projects

R. I. Jones
Vice-President and Chief Engineer

C. J. Kent
Vice-President Planning and Economics

R. S. Lougheed
Vice-President Gas Supply

A. R. MacKenzie
Vice-President Personnel

R. W. Martin
Vice-President Administration

E. W. H. Tremain
Vice-President, Treasurer and Assistant Secretary

George Wilkinson
Corporate Secretary

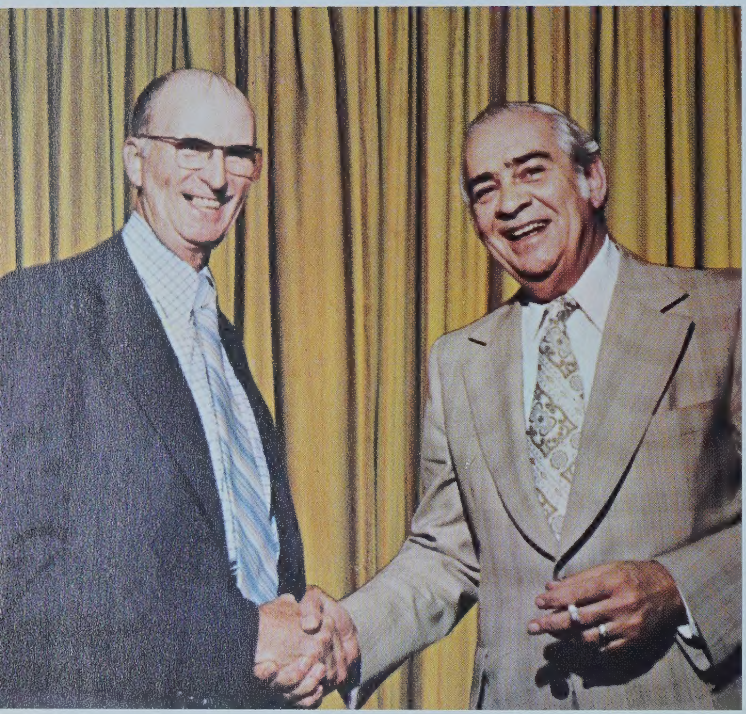
W. S. Pope
Assistant Treasurer

*Effective November 17, 1975

The floating drillship TELESIS, owned and operated by Consumers' subsidiary company, Underwater Gas Developers Limited, drilling for natural gas in Lake Erie. The converted lake freighter which was refitted this year is now exploring for gas in areas of Lake Erie where water depth and bottom conditions prevent operation of conventional jack-up platforms.

During 1975, ten successful gas wells were drilled in Lake Erie making a total of 67 producing gas wells and 55 shut-in gas wells in the Lake. Production will be increased over the next few years by placing more shut-in wells on production and by adding to the existing plant and pipeline system.

Report to Shareholders



J. C. McCarthy (right), recognizes the 45 years of service to the Company provided by J. F. Leith, Supervisor of Fairs and Exhibits, at a presentation in his honour.

Consumers' long term employees, with their wealth of experience and the personal interest they exhibit in the success of the Company's operation, are a great asset of the Company.

This Report to our Shareholders is written during a difficult and confusing time when the business outlook is far from clear and when anti-inflation guidelines are being introduced. The operation of a natural gas distribution business has become more complex and challenging in recent years during which your Directors and Management have had to adapt to an environment far different from that which prevailed in the decade following the introduction of natural gas in our area in 1954.

Your Company has had to contend with the rapidly rising costs of doing business during the past year, including the cost of raising debt and equity funds necessary to provide adequate service to its customers.

The past two years have produced many conflicting reports concerning the adequacy of traditional sources of natural gas in western Canada to supply the growing needs of our economy in future years. Controversy has surrounded the proper pricing of natural gas in these times of the rising costs of oil and other forms of energy in world markets.

The price which we must pay for our supply of natural gas, the cost of which must ultimately be recovered from our customers, has been extensively reviewed and debated by the industry and Federal and Provincial authorities during the past year. It has been generally agreed that the price for natural gas should, over the next few years, rise to a level which will be equivalent to the price for oil in the Canadian market. Effective November 1, 1975, the cost of gas purchased by the Company from TransCanada PipeLines Limited increased to approximately $1.25 per Mcf from the previous rate of approximately 82¢ per Mcf. In view of world energy conditions there is no escaping this rising level of prices. We are concerned, however, that an inadequate portion of the recent increases in the wellhead price of gas has become available to the producer as an incentive for the development of much needed additional reserves, the major portion of the increases having been taken in the form of royalties and taxes by the Federal and Alberta Governments.

We are convinced that frontier sources of gas must be established and brought to market at the earliest possible date. To this end, Consumers' Gas is a strong supporter of the Canadian Arctic Gas Study Group whose project we believe has the potential of bringing gas to market at the lowest cost and at the earliest date of alternative projects. The Company has also recently entered into an exploration venture in an attempt to assist in the development of additional gas reserves in the Mackenzie Delta and Beaufort Sea areas.

In order to maximize and utilize efficiently the gas supply now available to the Company, we

have embarked on a concerted programme to increase production from our reserves of natural gas in Lake Erie and have instituted a conservation programme which encourages our customers to reduce their consumption. We believe that these measures will allow us to continue to expand our service to the residential and small commercial/industrial customer during the next few years and place the Company in a position to market frontier gas on its arrival.

In September, the Company received a Decision from the Ontario Energy Board on the major Rate Case which commenced in 1973. The Decision, which is described more fully later in this report, establishes certain rate design principles which will assist us in planning for the future.

On November 4th a new hearing commenced before the Ontario Energy Board dealing with, among other things, increased gas costs, and the allowable rate of return on the investment in Ontario utility assets. An increase in the cost of gas purchased from TransCanada PipeLines, which became effective November 1st, will amount to approximately $130 million annually. In an interim Decision dated November 24, 1975 the Board approved an increase in rates to offset this increase in the cost of gas. The public hearing on the remaining matters continues on December 1, 1975 and a Decision is expected early in the new year.

We are pleased to report that net income for the year increased to $32,105,000. This increase results from a number of areas of our operations including earnings from our interest in Home Oil Company Limited.

Significant changes were made during the year in our capitalization through the issuance of 3,132,900 common shares in exchange for $52,215,000 of convertible debentures. The exchange effectively increased the common share equity on the basis of $16.67 for each new common share issued. As a result, the Company is in a better position to approach capital markets for the financing of its capital investment programmes of the next few years.

The next year will not be an easy one for Canadians. The recently announced Government guidelines to control inflation merit support and your Company has taken steps to hold expenses to minimum levels in response to this programme and current economic conditions.

Our employees are vital in providing service to the community. Their loyalty to the Company combined with their dedication in carrying out their responsibilities to the customers, the shareholders and the public at large is greatly appreciated.

On November 17th, in a move to strengthen the management of the Company, your directors appointed Mr. G. E. Creber as President and Chief Executive Officer and Mr. J. C. McCarthy as Vice-Chairman of the Board. Mr. Creber has recently held the position of Vice-President & General Counsel of Canadian Arctic Gas Study Limited and has had a long association as a director of and adviser to the Company.

J. Douglas Gibson

Chairman of the Board

G. E. Creber.

President and Chief Executive Officer

J. C. McCarthy

Vice-Chairman of the Board

November 24, 1975.

Report on Operations

Gas Supply

The National Energy Board held a lengthy enquiry during the past year to determine the quantity and deliverability of Canadian natural gas reserves in relation to reasonably foreseeable requirements for use in Canada and for potential export. A report of its findings dated April 1975 concludes that estimated gas supplies from conventional sources in western Canada will not be adequate to meet projected increases in total Canadian demand and, at the same time, supply existing export commitments.

The Company believes, however, that volumes presently under contract from TransCanada PipeLines Limited are adequate to meet the projected growth in the Company's market requirements through 1976-77. After that time volumes made available through conservation efforts, additional Company production in Ontario and through the re-allocation of available supplies to higher priority uses will be sufficient to maintain growth in the residential and small commercial and industrial sectors until the early 1980's when additional supplies are expected from northern Canada.

The hearing of the application of Canadian Arctic Gas Pipeline Limited to construct a large diameter pipeline from the Mackenzie Delta and Alaska to Canadian and U.S. markets commenced in October 1975 before the National Energy Board. We believe that this project has the potential to make available frontier gas to the Canadian markets at a lower cost and at an earlier date than alternative projects.

The pricing of natural gas at the wellhead in the producing areas and at the city gate where the distributor takes delivery from the transmission company, has been extensively reviewed and debated by the industry and Federal and Provincial authorities during the past year. As the result of these discussions, an agreement between Federal authorities and the Province of Alberta and the implementation of the Petroleum Administration Act, effective November 1, 1975 the price of gas at the city gate of the communities supplied by the Company, was increased to about $1.25 per Mcf. The new price was established at a level equal to approximately 85% of the equivalent cost of crude oil in the Toronto area. It is the stated intention of the Federal authorities to bring natural gas up to the equivalent price level of oil over the next three to five years.

We are confident that the higher wellhead price for natural gas supplies, if allowed by governments to accrue to the producing sector of the industry, will encourage exploration and development in the conventional supply areas of western Canada to at least maintain current delivery rates to Canadian markets until frontier reserves become available.

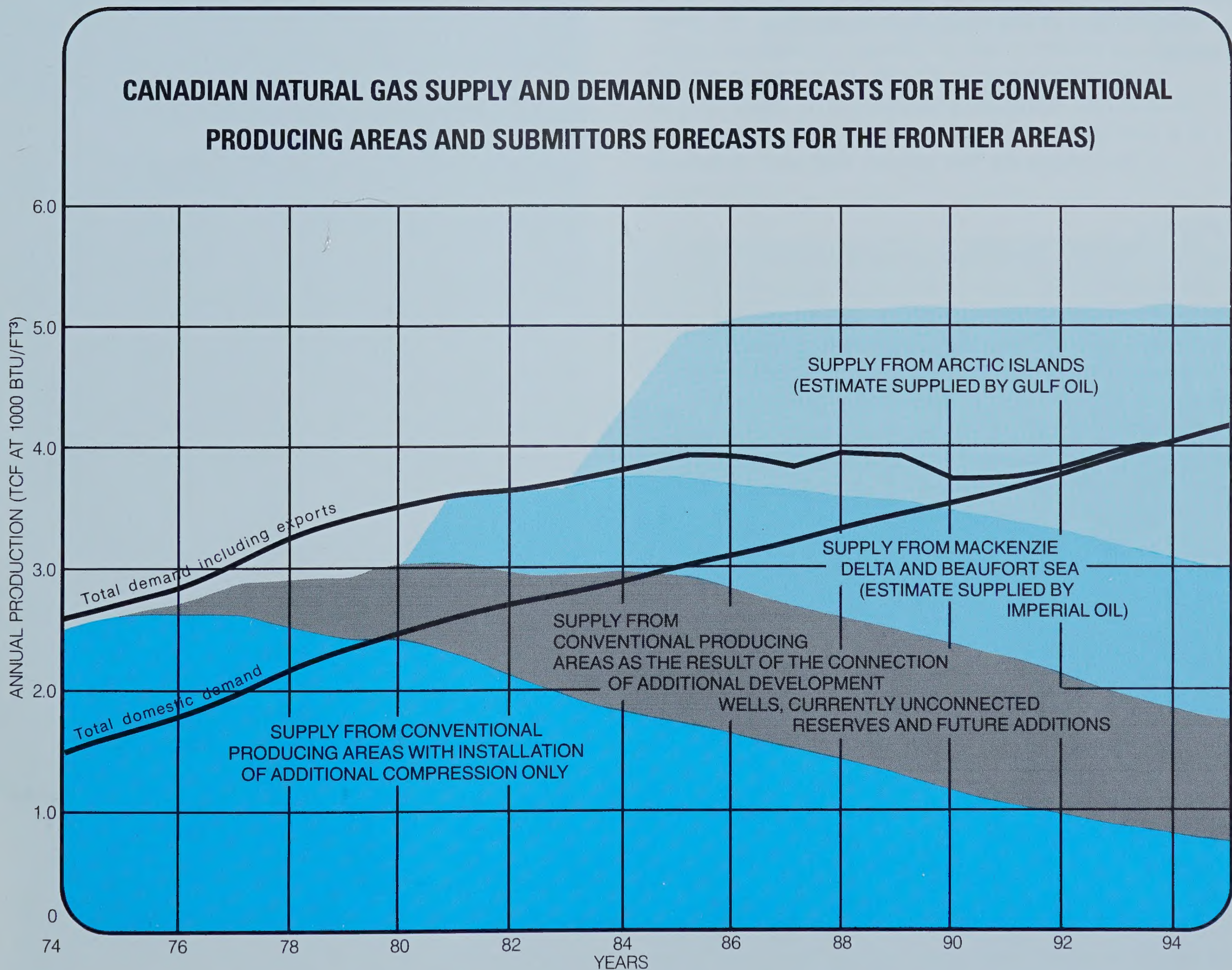
Exploration and Development

The Company continues its active exploration and development programme in Ontario and western Canada and by year end had extended its activities to include the Mackenzie Delta area in northern Canada. Exploration land holdings now total 1,947,000 gross acres or 1,433,000 net acres. During the year exploration and development expenditures amounted to $7.8 million, up from $5.4 million in 1973-74. The Company now has interests in 12 producing oil wells, and 143 producing and 80 capped gas wells. Many of these capped gas wells, both in Lake Erie and western Canada, will be placed on production within the next twelve months.

Additional processing equipment and pipeline facilities scheduled for mid-1976 are expected to raise Lake Erie production to a rate of 20 million cubic feet per day from its present level of about 11 million cubic feet per day.

Through subsidiary and associated companies, Consumers' is participating in exploration activities in the Appalachian Region of New York and Pennsylvania and in Hudson Bay.

The April 1975 report of the National Energy Board on Canadian Natural Gas – Supply and Requirements contained the following chart which depicts the outlook for Supply-Demand Balance of natural gas in Canada for the next 20 year period, based on N.E.B. estimates and other sources as indicated on the chart.



NOTE: FRONTIER INFORMATION IS NOT AN NEB ESTIMATE, BUT IS TAKEN FROM SOURCES INDICATED.

The most significant exploration undertaking of the year was the Company's entry into the Mackenzie Delta frontier area through the acquisition of a 20% interest in Delta-5, a five-company consortium, including Home Oil, formed to explore for gas and oil in the Mackenzie Delta and adjacent Beaufort Sea. Delta-5 is participating with Imperial Oil Limited in the exploratory drilling of three major structures, two in the onshore portion of the Delta and one from an artificial island in the Beaufort Sea. In addition, Consumers' and three other members of the group will participate with Standard Oil of British Columbia Limited by drilling a large structural feature on the Mackenzie Delta lands held by that company. Cost of the total Delta-5 programme, to be carried out over a two-year period, is estimated at $23 million, of which the Company's share will be $4.8 million. Exploration in this frontier area offers an opportunity to add to the much needed proven resources of the area and further emphasizes the Company's support for construction of the Canadian Arctic Gas Pipeline.

Marketing

We are encouraged that the demand for natural gas continues to be strong despite the attention focused on the uncertainties of future supply and price. Consumers' marketing plans contemplate the continuation of current supply levels through the early 1980's. During this period, the Company intends to continue the orderly development of its residential and small business markets because these markets represent a high priority use for the fuel and constitute a firm base from which to contract for frontier supplies of gas for further expansion in the 1980's. The gas supply required to develop the residential and commercial markets,

Tests to determine noise levels are part of the $90 million spent to date by Canadian Arctic Gas Study Limited to assure that rigid environmental standards of this undertaking will be met during construction and operation of the transmission line designed to bring natural gas from the Arctic to Canadian and U.S. markets.

The proposed Gas Arctic Pipeline will connect the gas reserves on the north slope of Alaska and the Mackenzie River Delta region of Canada to Canadian and United States markets. The Company believes that this pipeline system is required to supply the long term needs of Canada in the most efficient manner. The Company has conditionally agreed to invest up to $68 million in this project.

over the next few years, will be obtained from conservation efforts, the controlled use of storage facilities, further development of Lake Erie sources and, where necessary, from reduced deliveries to those customers who have alternative fuel burning facilities.

The Company's current customer communications programme is designed to encourage conservation in all market sectors and to emphasize the efforts of the Company in exploration and research to ensure "Gas for the Future".

Gas sales to the residential sector during the past year amounted to 63.9 billion cubic feet, an increase of about 2% over last year. This is a lower rate of growth than that experienced in recent years because of the slowdown in housing completions and a warmer than normal winter season. The weather in Toronto during the past year was approximately 5% warmer than normal and 4% warmer than last year. The weather effect and, possibly, a growing awareness by our customers of the need for conservation, resulted in a reduction in the average use per residential customer to 142.6 Mcf from 145.0 Mcf during the previous year. Sales volumes in the commercial and industrial categories, however, remained strong resulting in an increase of about 9% over the volumes sold in the previous year.

A new townhouse development which represents one of the important trends in home ownership occurring throughout the Consumers' Gas system.

Natural gas has gained in popularity for residential use, particularly in townhouse developments, because of the ease of installation, economy of operation and overall customer acceptance.

Operations

The distribution of gas to our almost 500,000 customers is possible today because of past capital investment in mains, services, meters, regulating stations and other equipment. In addition to the on-going capital investment in new plant and equipment, the Company must continually upgrade and, where necessary, replace its older system to ensure the continuation of reliable, efficient service to its customers. The Company invested $46 million in these assets during the year just ended and it is estimated that $54 million will be expended in fiscal 1976.

The extensive use of plastic pipe for gas distribution reduces the costs of installation.

More than 50% of all new distribution mains and all new residential service lines are installed using plastic pipe.

These Company personnel are welding 8″ pipe at the Company's Victoria [illegible] to be used in the expansion of the distribution system.

During 1975 Consumers' spent $46 million to expand and maintain its utility operation. A large proportion of this work is performed by skilled Company personnel.

Operating and maintenance costs shown on the Statement of Income on page 19 include the cost of customer service, engineering and planning, billing and collection, accounting functions, marketing, purchasing materials and supplies, research and development, personnel administration, computer operations and the cost of general administration.

The total of these costs during the past year amounted to $44 million, an increase of 11.9% over the past year.

Management continues to strive for increased efficiency in operations. An integrated corporate management information system utilizing both manual and computerized data is being developed.

The Company's day by day sales, distribution, customer contact and accounting functions are administered through nine regions or districts under local district management. The district administration offices are located in Willowdale for Metro Toronto; St. Catharines for the Niagara Region; Brampton for the Peel Region; Richmond Hill for York Region; Barrie for the Georgian Bay area; Whitby for the Durham region and the Kawarthas; Ottawa for Ottawa and the Ottawa Valley communities; Hull for Société Gazifère de Hull, Inc. and Massena, New York, for St. Lawrence Gas Company. Where warranted by geography or customer concentration, customer contact offices are located in other communities within these districts.

Financial

Income before an extraordinary item amounted to $32,634,000 in 1975, an increase of $5,492,000 or 20.2% over 1974. This improvement can be attributed to a number of factors. During 1975 the Company was allowed to recover a deficiency in its rate of return as determined by the Ontario Energy Board based upon a 1972 test year. Also during the year the addition of approximately 20,000 new customers and an increase in rates charged under the appliance rental programme contributed to growth in earnings. In addition, earnings from Home Oil Company Limited and Tecumseh Gas Storage Limited showed an improvement over last year.

After taking into account the Company's share of an extraordinary loss by Home Oil Company Limited, net income for the year available for dividends and reinvestment in the business was $32,105,000 compared to $26,397,000 last year.

These improvements in net income resulted in basic earnings per common share before an extraordinary item of $1.65, after providing for an increase in the preference share dividends of $1,634,000. Basic earnings per common share have been calculated on the basis of the weighted average number of shares outstanding during the period, being 18,219,408 shares. The weighted average number of shares reflects the impact, during the last quarter, of the exchange of debentures into common shares.

Gas sales revenue increased by $94 million or 35.9% over last year, with total sales reaching $356 million. However, the majority of this increase can be attributed to the recovery of increased gas costs amounting to $81 million.

Additional external financing was required during 1975 to reduce the Company's short term indebtedness which resulted from capital expenditures for the expansion of facilities and for the additional cash requirements to fund increases in accounts receivable and the cost of gas in storage. The Company's external financing needs were met through a $20 million issue of convertible preference shares and two bond issues totaling $35 million. A continuing infusion of additional capital will be required to enable the Company to continue to provide service to its franchised area. In addition to its normal capital requirements, the Company has entered into a conditional agreement to invest up to $68 million in the equity financing of the Canadian Arctic Gas Pipeline. The conditions include appropriate regulatory treatment of the amounts expended and the receipt of a commitment satisfactory to the Company for a supply of gas from the Mackenzie Delta.

The ability of Consumers' to finance its future growth was improved by the strengthening of the Company's equity base during the past year. An offer, dated June 20, 1975, was made to substantially all of the holders of the Company's 5½% Convertible Sinking Fund Debentures giving them the right to exchange their debentures for common shares of the Company on the basis of 60 common shares for each $1,000 principal amount of Debentures. A total of $52,215,000 principal amount of debentures were converted under the terms of the offer into 3,132,900 common shares at a price of $16.67 for each common share issued. The earning power of the expanded equity base should contribute significantly to the Company's ability to raise new capital over the next few years.

Regulation

On September 19, 1975 the Ontario Energy Board released its Decision on the Company's application for approval of proposed revisions to its rate schedules. In its Decision, the Board confirmed as appropriate, an interim increase in rates granted during the past year and found that the Company need not refund any amount to its customers. It confirmed in most respects the Company's proposed rate schedules. The principle of uniform rates throughout the system was approved and the Board ordered a change in the method by which the Company establishes rates for large volume customers.

Recently the Company filed a new application with the Board for approval of revised rates to be charged for gas sold to its customers in Ontario and a public hearing commenced on November 4, 1975. Evidence concerning the Company's current rate base, the return earned on that rate base and an appropriate allowable rate of return was filed for the Board's consideration at the hearing. The Company is seeking to recover, through its proposed rates, increased costs of operations, including increased cost of debt and preference share capital and a return on equity of 14.5%, an increase of 0.5% over the 14% return on equity permitted in the Board's Decision of July 9, 1974.

The hearing of the Company's main application was temporarily adjourned to allow the Board to hear an application of the Company for approval of interim rates designed to recover increases in gas costs of 42.84¢ per Mcf charged by TransCanada PipeLines effective November 1, 1975, and to establish rates designed to recover other increases in costs referred to above. The Company sought approval for the implementation of these rates effective December 11, 1975. The delay in implementation from November 1st to December 11th permits our customers to receive the benefit of the lower cost of gas in storage which was purchased at rates prevailing prior to November 1, 1975. In a Decision dated November 24, 1975, the Board approved an interim increase in rates effective December 11, 1975 to offset the increase in the cost of gas purchased and to permit the Company to include its investment in Ontario gas exploration and development in the determination of its rates. The Board deferred consideration of the Company's interim application concerning the recovery of the other higher costs of doing business and the determination of a current allowable rate of return to the main rate case which is now in progress.

St. Lawrence concluded its rate application before the New York Public Service Commission

With the cooperation of other utilities, these improved gas fired water heaters are being subjected to tests by the Canadian Gas Research Institute in their laboratory, as well as under field conditions at 34 locations across Canada. The test data is currently undergoing evaluation.

The Company supports research projects related to energy conservation and more efficient use of natural gas.

Customer information held on discs is retrieved through the use of an IBM 3277 terminal. Fifteen terminals will be put into service in the Metro Toronto office during January.

The use of advanced computers and retrieval equipment enables the Company to provide faster, more efficient service to its customers.

which granted an increase in revenues of $625,000 per year effective May 1, 1975.

The Ontario Energy Board recently completed a public hearing in which views were expressed concerning the most appropriate method of dealing with utility company investments made with the intention of assuring an adequate gas supply for Ontario. Your Company actively participated, believing that investment in such projects should be encouraged.

Home Oil

Consumers' owns or controls 49.6% of the voting stock of Home Oil and participates in approximately 20% of Home's earnings. Consumers' share of Home's earnings is carried on the Consolidated Statement of Income on page 19 as "Equity in Earnings—Home Oil Company Limited". This interest in Home Oil has enabled the Company to participate more extensively in oil and gas activities in Canada, the United States and overseas.

Home is engaged in the exploration for and the production and transportation of crude oil, natural gas and natural gas liquids, and in the underground storage and marketing of natural gas liquids. Home is also engaged in the exploration for and development of coal and other minerals and has a 20% partnership interest in a semi-submersible drilling vessel. Home is conducting exploration programmes for oil and gas in western Canada, the Northwest Territories, the Arctic Islands and in the United States (including the Gulf Coast offshore areas), the North Sea and other foreign areas.

Home, through an 85.6% subsidiary, Scurry-Rainbow Oil Limited, has extensive coal interests in Alberta and British Columbia, is exploring for base and precious metals in Canada, Mexico and the United States, and is participating in the exploration for uranium in Saskatchewan.

Home Oil recently announced in its third quarter report, for the nine month period ended September 30, 1975, that net earnings after extraordinary items amounted to $15,994,000 or $1.93 per share as compared to $10,058,000 or $1.22 per share for the comparable period in 1974. During this period Home's crude oil and natural gas liquid production, before royalties and minority interests, increased 5.4% to 39,200 barrels per day. Natural gas sales averaged 126,200 Mcf per day, a 5.3% increase over the comparable period in 1974.

In the period, Home and Scurry participated in the drilling of 42 exploratory wells and had a further interest in 18 exploratory farmout wells. The programme resulted in 1 oil well and 12 gas wells, with 4 wells still drilling at September 30, 1975.

Copies of the Annual Report of Home Oil Company Limited may be obtained by writing to: The Secretary, The Consumers' Gas Company.

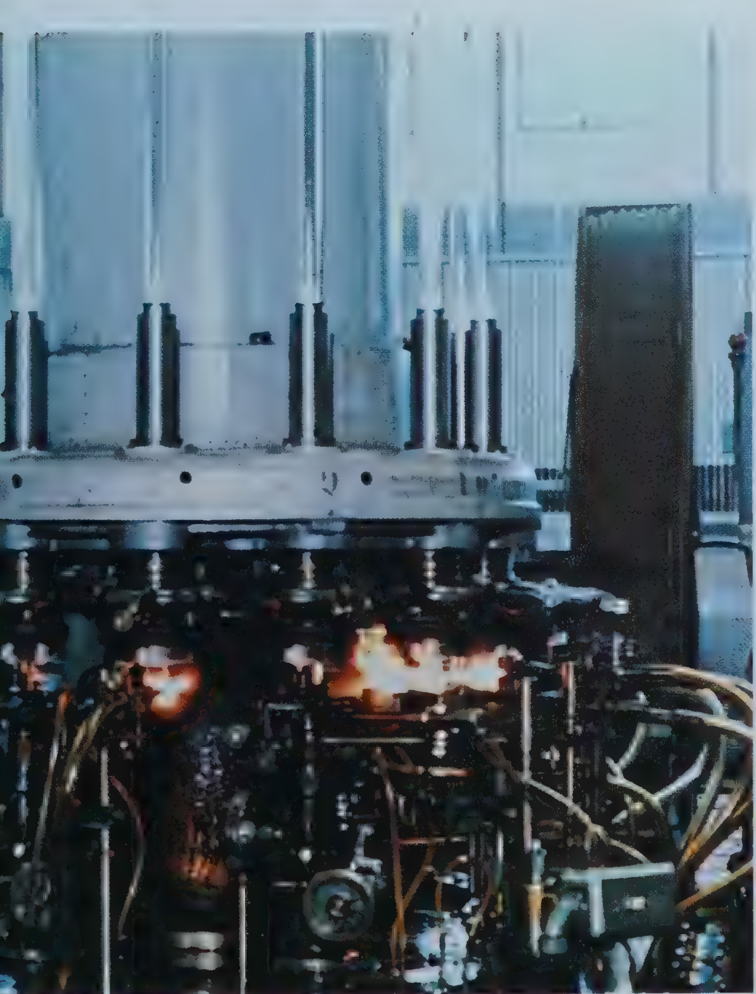
Other Activities

The Company is one of a number of distribution and transmission companies supporting

research programmes at The Canadian Gas Research Institute. Many of these programmes contribute to the development of more efficient energy consuming equipment. During the past year, the Institute conducted laboratory and field tests on a new improved design water heater developed jointly by utilities and manufacturers.

Other investigations at the Canadian Gas Research Institute involve the development of more efficient equipment and appliances which will be easier to maintain and service. Studies are also underway to improve gas burning techniques, to develop heat reclaiming devices, and to develop other projects of interest to the gas industry.

The Company, in partnership with two other companies, concluded a preliminary study on the feasibility of supplying electricity and steam to industrial plants in the Thorold area to be fueled in part by Niagara Region waste. The Company is also participating in similar studies in Toronto and Ottawa and is investigating the potential use of solar energy in combination with gas fired appliances.



Consulting activities have proven to be both profitable to the Company and beneficial to the development of our personnel. Currently the Company is providing assistance to Sonelgaz, an Algerian gas and electricity distributor, in the introduction of plastic pipe for gas distribution in Algeria.

The real estate operations carried out by Consumers' Realty Limited, a wholly-owned subsidiary, continue on a limited scale with no new mortgage holdings anticipated in the coming year.

Personnel

The Company recognizes the importance of keeping its wages and benefits in line with the industry standards. Collective agreements, each of two years duration, were negotiated with three of our union locals providing for such improvements. Two other collective agreements are due for renegotiation early in 1976. The remaining collective agreement covering 680 employees in central Ontario expired September 7, 1975. A new agreement has not been reached with the union local although attempts to reach an agreement are

Far left: Natural gas is used in the cheese production process at Research Foods Ltd.
Left: Using natural gas at Wheaton Glass Company to produce glass ampoules.

Natural gas is an important and in some cases essential ingredient in the operations of the many industrial customers of Consumers'.

continuing. A total of 1,467 employees are represented by various union locals.

A preventative maintenance Dental Plan, for all of the employees and their dependents, was implemented on January 1, 1975 and improvements were made to the Major Medical Plan.

The combination of skills, knowledge and loyalty to the Company which our 2,711 employees possess has contributed greatly to the success of the Company's operation. In particular, the Company benefits from the varied and extensive experience of our 953 employees with 10 or more years of service, 230 of whom have 25 years or more of service.

Barbara Robinson, staff assistant to the Director of Exploration, served on the 1975 United Appeal Campaign of Metropolitan Toronto.

The Company is proud of the personal contributions made by its employees in the community and fully supports such involvement.

Classroom instruction is part of the Company's on-going employee training programme designed to help employees up-grade their qualifications to take advantage of employment opportunities.

Employee training and subsequent advancement assures the efficient, smooth functioning of Company operations which in turn enables it to provide better service to the community.

THE

The Consumers' Gas

COMPANY

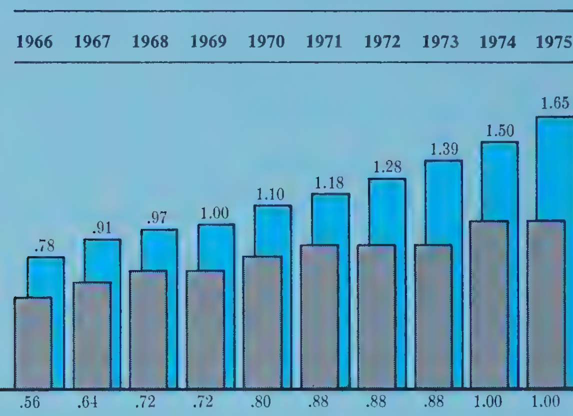
September 30, 1975

FINANCIAL STATEMENTS

The Consumers' Gas Company and subsidiary companies

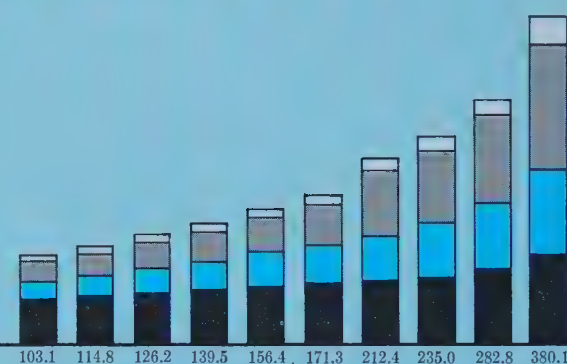
Earnings and Dividends per Common Share ($1.65 and $1.00)

Basic Earnings (before extraordinary items)
Current Annual Dividend Rate

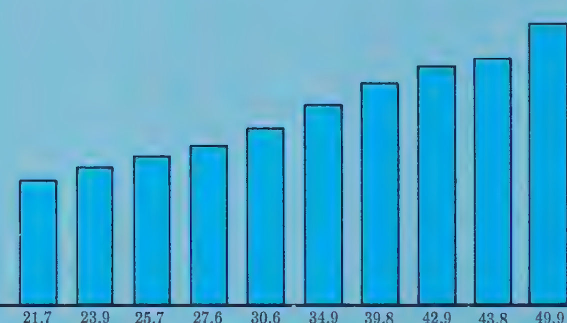


Revenues ($380,077,000)

Other revenue
Industrial and other
Commercial
Residential

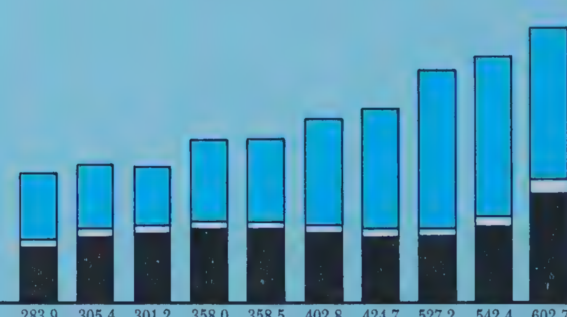


Cash Flow From Operations ($49,939,000)



Capitalization ($602,688,000)

Long Term Debt
Preference Shares
Common Equity



Consolidated Statement of Income

The Consumers' Gas Company and subsidiary companies
(Expressed in Thousands)

Years ended September 30	1975	1974
REVENUE		
Gas sales	**$356,684**	$262,398
Other	**23,393**	20,358
	380,077	282,756
COST AND EXPENSES		
Gas costs	**244,605**	163,565
Operation and maintenance	**44,063**	39,385
Depreciation and depletion	**17,440**	15,954
Municipal and other taxes	**5,761**	4,789
Interest and amortization—long term debt	**27,585**	26,608
Other interest	**3,524**	3,187
	342,978	253,488
	37,099	29,268
Equity in earnings before extraordinary item		
Home Oil Company Limited	**4,580**	3,335
Tecumseh Gas Storage Limited and other companies	**1,623**	1,194
Income before income taxes and extraordinary item	**43,302**	33,797
Income taxes		
Current	**7,785**	3,833
Deferred	**2,883**	2,822
	10,668	6,655
Income before extraordinary item	**32,634**	27,142
Share of extraordinary loss of Home Oil Company Limited	**(529)**	(745)
Net income for the year available for dividends and reinvestment in the business	**32,105**	26,397
Dividends		
Preference shares	**2,496**	862
Common shares	**18,293**	15,934
	20,789	16,796
Net income reinvested in the business	**$ 11,316**	$ 9,601
Basic earnings per common share (note 9)		
Income before extraordinary item	**$ 1.65**	$ 1.50
Net income	**$ 1.63**	$ 1.46
Fully diluted earnings per common share (note 9)		
Income before extraordinary item	*$ 1.45*	*$ 1.39*
Net income	*$ 1.42*	*$ 1.35*

Consolidated Balance Sheet

The Consumers' Gas Company and subsidiary companies
(Expressed in Thousands)

ASSETS	September 30 **1975**	1974
CURRENT ASSETS		
Cash and deposits	**$ 1,986**	$ 1,898
Accounts receivable (including amounts receivable on merchandise finance plan, 1975—$10,332, 1974—$10,185)	**40,540**	34,891
Materials and supplies at the lower of cost and replacement cost	**7,768**	7,209
Gas stored underground at cost	**50,476**	34,199
Prepaid expenses	**1,597**	1,303
	102,367	79,500
INVESTMENTS		
Home Oil Company Limited at equity in underlying net assets (note 2)	**43,863**	40,568
Home Oil Company Limited Class A share purchase warrants at cost (note 2)	**3,600**	3,600
Tecumseh Gas Storage Limited and other companies at equity in underlying net assets	**9,620**	8,696
Other investments at cost (note 2)	**15,058**	15,053
	72,141	67,917
PROPERTY, PLANT AND EQUIPMENT at cost or redetermined value (note 3)	**647,442**	601,649
Accumulated depreciation and depletion	**101,312**	90,898
	546,130	510,751
OTHER ASSETS AND DEFERRED CHARGES		
Mortgages receivable	**3,627**	6,683
Property held for resale and other assets at cost	**2,301**	2,060
Investment in Gas Arctic—Northwest Project Study Group (note 4)	**3,688**	2,400
Deferred gas costs (note 5)	**6,785**	7,263
Unamortized debt discount and expense	**2,924**	3,716
Other deferred charges	**716**	1,382
	20,041	23,504
	$740,679	$681,672

Approved by the Board:

J. K. Macdonald, Director

A. R. Poyntz, Director

LIABILITIES	September 30 1975	1974
CURRENT LIABILITIES		
Bank borrowings	**$ 5,551**	$ 14,786
Notes payable	**46,350**	45,140
Accounts payable and accrued	**39,696**	32,129
Accrued interest on long term debt	**6,643**	7,230
Taxes payable	**5,125**	3,022
Dividends payable October 1	**5,819**	4,592
Funded debt payable within one year	**6,094**	12,594
	115,278	119,493
LONG TERM DEBT (note 6)		
Funded debt	**334,144**	361,752
Other	**7,197**	587
	341,341	362,339
DEFERRED INCOME TAXES	**21,492**	18,609
MINORITY INTEREST IN SUBSIDIARY COMPANY	**1,221**	1,197
SHAREHOLDERS' EQUITY		
Capital stock		
Preference shares (note 7)	**35,376**	15,790
Common shares (note 8)		
Authorized—75,000,000 shares without par value		
Issued —20,643,344 shares (1974—17,510,173 shares)	**125,161**	72,940
Contributed surplus	**3,523**	3,364
Excess of net redetermined value of property, plant and equipment over depreciated book cost	**14,494**	14,808
Reinvested earnings	**82,793**	73,132
	261,347	180,034
	$740,679	$681,672

Consolidated Statement of Reinvested Earnings

The Consumers' Gas Company and subsidiary companies
(Expressed in Thousands)

Years ended	September 30	
	1975	1974
Balance at beginning of year	**$ 73,132**	$ 62,918
Net income reinvested in the business	**11,316**	9,601
Amounts realized through depreciation provisions, transferred from excess of net redetermined value of property, plant and equipment over depreciated book cost	**316**	330
	84,764	72,849
Deduct		
Costs of issuing common and preference shares less income taxes relating thereto	**1,971**	—
Adjustment of excess of investment in shares over equity in underlying net assets at dates of acquisition arising on conversion of debentures in Home Oil Company Limited	—	(283)
	1,971	(283)
Balance at end of year	**$ 82,793**	$ 73,132

Consolidated Statement of Changes in Financial Position

The Consumers' Gas Company and subsidiary companies
(Expressed in Thousands)

Years ended	September 30 1975	1974
SOURCE OF WORKING CAPITAL		
Cash flow from operations	**$ 49,939**	$ 43,828
Issue of long term debt	**41,900**	30,000
Issue of preference shares	**20,000**	—
Sale of investment in shares of other companies	—	3,552
Reduction in mortgages receivable and other assets, net	**2,815**	1,134
ISSUE OF COMMON SHARES FOR CONVERTIBLE DEBENTURES	**52,221**	—
	166,875	78,514
USE OF WORKING CAPITAL		
Net additions to property, plant and equipment	**52,817**	59,628
Investment in warrants of Home Oil Company Limited	—	3,600
Investment in Gas Arctic—Northwest Project Study Group	**1,288**	828
Other reductions in non-current portion of long term debt	**10,232**	23,706
Dividends on preference and common shares	**20,789**	16,796
Other items	**2,446**	2,495
EXCHANGE OF CONVERTIBLE DEBENTURES FOR COMMON SHARES	**52,221**	—
	139,793	107,053
INCREASE (DECREASE) IN WORKING CAPITAL POSITION	**$ 27,082**	$ (28,539)

Notes to Consolidated Financial Statements

The Consumers' Gas Company and subsidiary companies

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

The accounting methods and practices used by the company and its subsidiaries in their utility operations are subject to the jurisdiction of various regulatory bodies.

Principles of Consolidation

(i) The consolidated financial statements include the accounts of all subsidiary companies since dates of acquisition. The excess of investment in shares of such subsidiaries over equity in underlying net assets at dates of acquisition was charged to reinvested earnings in 1973 and prior years. The major operating subsidiary companies are: Consumers' Realty Limited, Cygnus Corporation Limited, Niagara Gas Transmission Limited, St. Lawrence Gas Company Inc., Société Gazifère de Hull, Inc., and Underwater Gas Developers Limited.

(ii) The company and its consolidated subsidiaries follow the equity method of accounting for their investment in the following companies:

(a) Home Oil Company Limited (see note 2).

(b) Community Antenna Television Ltd. in which Cygnus has an interest of 37%, and

(c) Tecumseh Gas Storage Limited and other companies 50% owned.

This method of accounting reflects the company's interest in the earnings of such companies in the consolidated statement of income and the investments in such companies are carried on the consolidated balance sheet at equity in underlying net assets. The excess of investment in shares of such companies over equity in underlying net assets at dates of acquisition was charged to reinvested earnings in 1973 and prior years. Dividends received on investments for which the company follows the equity method of accounting amounted to $1,508,000 in 1975 and $1,467,000 in 1974.

Property, Plant and Equipment

All land, plant and equipment is stated at cost, with the exception of the remaining portion of gas utility plant and equipment acquired by the company prior to September 30, 1955 which is stated at a redetermined value of $46,022,000 at September 30, 1975, based on reproduction cost according to an appraisal made by Stone & Webster Canada Limited as at September 30, 1955.

Accumulated depreciation at the date of the appraisal was based on estimated service life.

The increase in the depreciated value of property, plant and equipment resulting from the 1955 redetermination (less portions of such increase realized through disposals and depreciation provisions and adjustments for the years 1956 to 1975) has been included in shareholders' equity as excess of net redetermined value of property, plant and equipment over depreciated book cost.

In accordance with the recommendations contained in studies by Stone & Webster Canada Limited, depreciation is calculated on the straight line service life basis using the recorded values of depreciable properties at the rate of 1.6% on distribution pipelines, the major component of utility plant, and at varying rates on other plant. These rates, when applied to the appropriate plant accounts, are equivalent to a composite rate of approximately 2.7%.

The company follows the full cost method of accounting for gas and oil operations whereby all costs of exploring for and developing gas and oil and related reserves are capitalized and form part of property, plant and equipment. Such costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. These costs are depleted using the unit of production method based upon estimated recoverable reserves.

The companies include in plant the cost to the companies of funds used for the purpose of construction and the applicable overhead costs attributed to construction. The total amounts included in plant for interest and overhead costs capitalized were $3,883,000 in 1975 and $3,182,000 in 1974.

Unamortized Debt Discount and Expense

The company defers the costs incurred on debt issues to be charged to income over the life of each issue. Discounts realized on bonds purchased for sinking fund purposes are applied against the unamortized debt discount and expense related to each issue. When the deferred costs related to each issue are eliminated the discount on purchase is included in income. Amounts so included were $1,183,000 in 1975 and $414,000 in 1974.

Income Taxes

The companies follow the tax allocation basis of recording income taxes except in gas utility and like operations. In gas utility and like operations where rate and revenue structures are designed not to recover deferred taxes in current revenues, such deferred taxes are not recorded in the companies' accounts. These deferred taxes not recovered in revenues and not recorded amounted to $7,600,000 in 1975, $7,600,000 in 1974, and to an accumulated amount of $86,100,000 at September 30, 1975.

NOTE 2 INVESTMENTS

The company holds directly 389,084 Class A shares (7.0%) and 276,788 Class B voting shares (10.8%) of Home Oil Company Limited. Cygnus Corporation Limited, which is 96% owned by the company, holds a further 1,000,000 Class B voting shares (38.9%) of Home. Through these holdings the company controls 49.7% of Home's voting shares and has an equity participation of approximately 20% in Home's earnings (8% directly and 12% indirectly through Cygnus). In addition Cygnus holds warrants to purchase Class A shares of Home as follows: 76,975 shares at $14.55 U.S. per share and 32,990 shares at $17.66 U.S. per share, exercisable on or before April 30, 1980.

Details of other investments are as follows:

	1975			1974		
	Number of Shares	Cost	Quoted Market Value	Number of Shares	Cost	Quoted Market Value
		(Expressed in Thousands)			(Expressed in Thousands)	
Union Gas Limited - common shares	700,000	$12,846	$ 4,988	700,000	$12,846	$ 5,688
Atlantic Richfield Company - common shares	16,000	1,693	1,588	16,000	1,693	1,184
Sogepet Limited - common shares	768,000	519	737	759,500	514	684
		$15,058	$ 7,313		$15,053	$ 7,556

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the property, plant and equipment and related accumulated depreciation and depletion:

	1975		1974	
	Asset	Accumulated Depreciation and Depletion	Asset	Accumulated Depreciation and Depletion
		(Expressed in Thousands)		
Gas utility plant including distribution, transmission and underground storage facilities, land, structures, pipelines, permissions, equipment, etc.	$603,738	$ 93,292	$567,713	$ 84,198
Natural resource properties including wells, gathering lines and exploration and development costs	33,484	3,191	25,644	2,437
Drilling and related equipment	7,279	3,211	5,363	2,645
Other	2,941	1,618	2,929	1,618
	$647,442	$101,312	$601,649	$ 90,898

NOTE 4 INVESTMENT IN GAS ARCTIC—NORTHWEST PROJECT STUDY GROUP

The company is participating along with other major gas and oil companies in a study to determine the feasibility of constructing a gas transmission pipeline from Northwest Canada and Alaska to markets in Canada and the United States.

If the project is determined to be feasible and the necessary regulatory approvals are received, the company's contribution might be converted to a share or other security interest in the permanent financing of the pipeline (pro-rata with other members of the study group); otherwise the investment will be written off to the extent that it is not recovered. The company has conditionally agreed to invest up to $68 million in the equity financing of Canadian Arctic Gas Pipeline Limited over the next five years. The conditions include appropriate regulatory treatment of the amounts expended and the receipt of a commitment satisfactory to the company for a supply of gas from the Mackenzie Delta.

NOTE 5 DEFERRED GAS COSTS

During 1972 and 1973, the company paid TransCanada PipeLines Limited $7,263,000 to enable it to finance the construction of additional pipeline facilities necessary to deliver the gas volumes required by the company. In accordance with Accounting Order U.A. 11 made by the Ontario Energy Board, this amount was deferred in the company's accounts. This amount is being amortized over a period of ten years commencing October 1, 1974, in accordance with Accounting Order U.A. 19 made by the Ontario Energy Board.

NOTE 6 LONG TERM DEBT

	Maturity	Amount Outstanding (Expressed in thousands) 1975	1974
Funded debt			
The Consumers' Gas Company			
First Mortgage Sinking Fund Bonds			
3¾% Series A	1974	$ —	$ 4,500
5% Series B	1978	11,091	12,155
5½% Series C	1983	15,173	16,059
4.85% Series D (U.S. $12,050,000, $12,685,000 in 1974)	1985	12,935	13,617
8⅝% Series E	1993	60,000	60,000
8% Series F (U.S. $15,000,000)	1993	14,728	14,728
8¾% Series G	1994	20,000	20,000
9⅛% Series H	1995	30,000	30,000
11⅜% Series I	1994	15,000	—
11½% Series J	1996	20,250	—
Sinking Fund Debentures			
4¼%	1974	—	3,000
4¾%	1976	4,000	4,277
5¾%	1977	2,400	3,045
6½%	1979	5,698	6,183
6%	1981	8,632	9,672
5½%	1982	6,808	7,257
5¾%	1984	8,161	8,734
5⅝%	1985	15,725	16,696
8⅛%	1991	47,891	49,800
8%	1992	31,422	32,000
Convertible Sinking Fund Debentures			
5½% (convertible into common shares at a conversion price of $21.922 per share, 1974—$23.53 per share)	1989	7,777	59,998
St. Lawrence Gas Company, Inc.			
First Mortgage Sinking Fund Bonds			
5¼% (U.S. $2,352,000, $2,424,000 in 1974)	1988	2,547	2,625
		340,238	374,346
Less payable within one year included in current liabilities		6,094	12,594
		$334,144	$361,752

The aggregate principal amounts of funded debt maturities and sinking fund requirements amount to approximately $10,403,000 in 1977 and $18,093,000 in 1978.

Other

Details of other long term debt are as follows:

	1975	1974
Term bank loans of subsidiary company maturing at various dates up to 1979	$ 4,150	$ —
Promissory note of subsidiary company maturing in 1979	2,500	—
Mortgages payable maturing at various dates up to 1995	547	587
	$ 7,197	$ 587

NOTE 7 PREFERENCE SHARES

	1975	1974
Authorized		
Group 1—issuable in series	153,763 shares of $100 each	157,902 shares of $100 each
Group 2—issuable in series	6,000,000 shares of $25 each	1,000,000 shares of $100 each
Group 3—	8,000,000 shares of $20 each issuable in series	15,000,000 6½% convertible shares of $14 each

	1975		1974	
Outstanding				
Group 1	Shares	Amount	Shares	Amount
5½% cumulative Series A, redeemable at a premium reducing from 2% to 1%	43,075	$ 4,307,500	44,101	$ 4,410,100
5½% cumulative Series B, redeemable at a premium reducing from 2% to 1%	86,113	8,611,300	88,601	8,860,100
5% cumulative Series C, redeemable at a premium reducing from 3% to 1%	24,575	2,457,500	25,200	2,520,000
Group 3				
9% cumulative, convertible first series redeemable at varying premiums reducing from $1.40	1,000,000	20,000,000	—	—
		$35,376,300		$15,790,200

A retirement fund for the purchase of each series of preference shares for cancellation is required to be maintained in the amounts of $100,000 for the Series A shares, $200,000 for the Series B shares, and $60,000 for the Series C shares. These funds are required to be augmented on January 2 of each year by the amounts necessary to re-establish them at the original amounts to the extent that this obligation has not been satisfied by purchase of preference shares for cancellation in prior years. At September 30, 1975 no balance remained in the retirement funds as they had been fully used to purchase preference shares for cancellation.

During the year 1,026 Series A, 2,488 Series B and 625 Series C preference shares having an aggregate par value of $413,900 were purchased for cancellation. The amount of $159,000 by which the par value exceeded the purchase price is included in contributed surplus.

The company on October 4, 1974 amended its articles changing the authorized capital of the company by redividing, reclassifying and redesignating the 1,000,000 preference shares group 2 of $100 each, issuable in series and the 15,000,000 6½% convertible preference shares group 3 of $14 each into 6,000,000 preference shares group 2 with a par value of $25 each, issuable in series and 8,000,000 preference shares group 3 with a par value of $20 each, issuable in series.

On November 1, 1974 the company issued 1,000,000 9% Cumulative Convertible Redeemable Preference Shares, Group 3, First Series with a par value of $20 each, convertible into common shares at a conversion price of $15 per share, for an aggregate purchase price of $20,000,000.

NOTE 8 COMMON SHARES

During the year 3,133,171 common shares were issued, 3,132,900 in exchange for $52,215,000 principal amount of the 5½% convertible sinking fund debentures and 271 on conversion of $6,000 principal amount of the convertible debentures.
354,787 common shares are reserved for issue on conversion of the outstanding 5½% convertible sinking fund debentures.

Under the terms of the Restricted Stock Option Plan approved by the common shareholders on November 19, 1956, 890,874 common shares have been set aside for purchase by key employees. At September 30, 1975, 801,117 shares had been issued under this plan and options are outstanding on 37,557 shares at $14.07 per share. The last of these options expires on August 6, 1979. A total of 92 employees hold options under the Restricted Stock Option Plan.

NOTE 9 EARNINGS PER SHARE

Earnings per share have been calculated on the weighted average number of shares outstanding during the year. Due to the issue of shares in June and July 1975 in exchange for convertible debentures, the weighted average number of shares outstanding was 18,219,408 for 1975 and 17,510,173 for 1974. Fully diluted earnings per share assumes the conversion of the convertible debentures and the convertible preference shares and the exercise of the stock options from dates of issue. The company's utility earnings are dependent upon the determination by the regulatory authority of an appropriate rate base and rate of return. The rate of return presently approved by the Ontario Energy Board does not reflect the results of the exchange of debentures for common shares referred to in Note 8 and accordingly adjusted earnings per share have not been provided since these figures may not be representative of potential earnings per share. In its present application before the Board the company is requesting the recognition in gas rates of the current cost of capital through a redetermination of an allowable rate of return on its Ontario utility operation.

NOTE 10 REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Direct remuneration of directors and senior officers amounted to $719,000 for 1975 and $616,000 for 1974.

NOTE 11 RETIREMENT PLANS

The companies have contributory retirement plans to cover substantially all employees. The normal retirement benefits under these plans commence at age 65. The plans are subject to periodic actuarial review and in June 1975 the company was advised by the actuary that, because of revised data in his possession, the estimated unfunded past service liability of the plans in his opinion, amounted to $8,100,000 at January 1, 1974. In the opinion of the actuary this obligation would be liquidated by equal annual instalments of $746,700 over 16 years from January 1, 1974. The instalments for past service are paid annually and charged to operations and the amounts estimated in the actuarial calculations to be sufficient to fund all current costs of the plans are charged to operations in the year incurred.

NOTE 12 CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS

The company has entered into an agreement whereby it agrees to make sufficient use of the facilities of Tecumseh Gas Storage Limited to generate the revenue required by Tecumseh to meet its obligations under Trust Indentures relating to its Series A and Series B debentures. In the event that there is any deficiency, the company will be required to purchase subordinated securities in an amount sufficient to make up the deficiency. The management of the company is of the opinion that Tecumseh will generate sufficient revenue to meet its obligations.

TransCanada PipeLines Limited, the supplier of substantially all of the natural gas requirements of the company, has received authorization to increase its rates effective November 1, 1975. This will increase the company's cost of gas by approximately $130 million annually. The company has made application to the Ontario Energy Board for approval of an increase in rates to its customers to offset this additional cost of purchased gas.

Auditors' Report

Thorne Riddell & Co.

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of
The Consumers' Gas Company

We have examined the consolidated balance sheet of The Consumers' Gas Company and subsidiary companies as at September 30, 1975 and the consolidated statements of income, reinvested earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co.
Chartered Accountants

Toronto, Canada
November 17, 1975

OFFICES THROUGHOUT CANADA AND ASSOCIATES THROUGHOUT THE WORLD

THE
Consumers' Gas
COMPANY

TEN YEAR FINANCIAL AND OPERATING STATISTICS

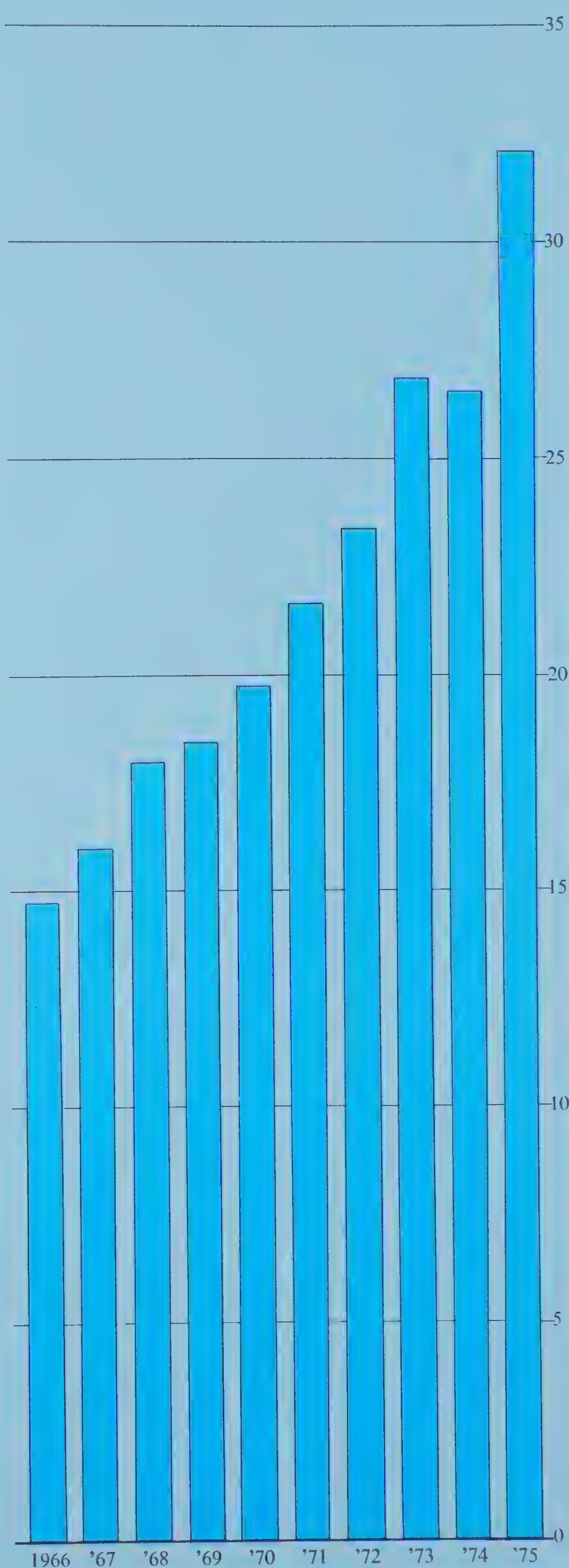
Financial and Operating Statistics—1966-1975

Years ended September 30

	1975	1974	1973	1972	1971
Consolidated Statement of Income ($000's)					
Gas sales					
Residential	**$102,859**	$ 84,061	$ 75,271	$ 70,122	$ 67,325
Commercial	**107,191**	77,333	62,603	55,178	46,406
Industrial and other	**146,634**	101,004	79,766	72,113	44,549
Total gas sales	**356,684**	262,398	217,640	197,413	158,280
Other revenue	**23,393**	20,358	17,330	15,036	13,011
	380,077	282,756	234,970	212,449	171,291
Gas costs	**244,605**	163,565	127,425	115,596	85,413
Operation and maintenance	**44,063**	39,385	34,553	31,513	27,023
Depreciation and depletion	**17,440**	15,954	14,745	13,049	11,237
Municipal and other taxes	**5,761**	4,789	4,281	4,266	4,180
Interest and amortization—long term debt	**27,585**	26,608	22,985	15,878	12,922
Other interest	**3,524**	3,187	1,995	2,865	2,254
	342,978	253,488	205,984	183,167	143,029
	37,099	29,268	28,986	29,282	28,262
Equity in earnings before extraordinary items					
Home Oil Company Limited	**4,580**	3,335	2,382	915	116
Tecumseh Gas Storage Limited and other companies	**1,623**	1,194	1,051	876	832
Income before income taxes and extraordinary items	**43,302**	33,797	32,419	31,073	29,210
Income taxes					
Current	**7,785**	3,833	3,316	4,368	5,287
Deferred	**2,883**	2,822	3,939	3,394	2,362
	10,668	6,655	7,255	7,762	7,649
Income before extraordinary items	**32,634**	27,142	25,164	23,311	21,561
Extraordinary items	**(529)**	(745)	1,621	—	—
Net income for the year available for dividends and reinvestment in the business	**32,105**	26,397	26,785	23,311	21,561
Preference share dividends	**2,496**	862	875	901	919
Net income available for common share dividends and reinvestment in the business	**$ 29,609**	$ 25,535	$ 25,910	$ 22,410	$ 20,642
Basic earnings per common share					
Before extraordinary items	**$1.65**	$1.50	$1.39	$1.28	$1.18
After extraordinary items	**$1.63**	$1.46	$1.48	$1.28	$1.18
Fully diluted earnings per common share					
Before extraordinary items	**$1.45**	$1.39	$1.29	$1.20	$1.11
After extraordinary items	**$1.42**	$1.35	$1.37	$1.20	$1.11

1970	1969	1968	1967	1966
65,177	$ 59,737	$ 58,860	$ 55,332	$ 52,432
40,041	33,934	27,532	23,694	19,853
39,599	36,086	30,982	28,386	24,898
144,817	129,757	117,374	107,412	97,183
11,573	9,788	8,791	7,366	5,964
156,390	139,545	126,165	114,778	103,147
77,294	68,753	59,605	54,079	49,696
24,107	21,088	20,226	19,076	17,769
10,114	9,259	8,541	7,793	7,018
3,865	3,725	2,958	2,875	2,514
10,389	9,463	7,560	7,774	7,958
2,116	1,683	1,519	1,037	351
127,885	113,971	100,409	92,634	85,306
28,505	25,574	25,756	22,144	17,841
	—	—	—	—
635	567	586	454	318
29,140	26,141	26,342	22,598	18,159
7,841	7,440	8,373	6,507	3,446
1,140	280	54	49	1,353
8,981	7,720	8,427	6,556	4,799
20,159	18,421	17,915	16,042	13,360
(367)	—	—	—	1,436
19,792	18,421	17,915	16,042	14,796
940	964	973	975	975
18,852	$ 17,457	$ 16,942	$ 15,067	$ 13,821
$1.10	$1.00	$ .97	$ .91	$ .78
$1.08	$1.00	$ .97	$ .91	$ .87
$1.04	$ .97	$ .97	$ .91	$ .78
$1.02	$ .97	$ .97	$ .91	$ .87

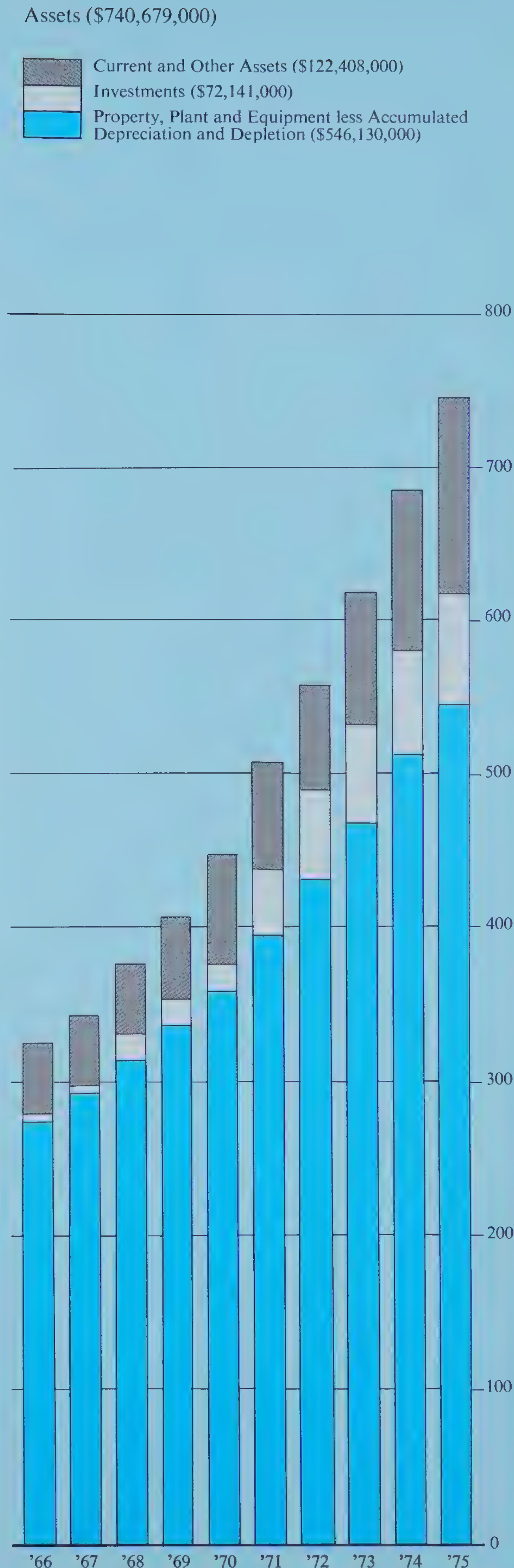
Net Income Available for Dividends
and Reinvestment in the Business ($32,105,000)



Condensed Consolidated Balance Sheet ($000's)	1975	1974	1973	1972	1971
ASSETS:					
Current assets	$102,367	$ 79,500	$ 60,649	$ 49,836	$ 51,557
Investments	72,141	67,917	64,307	59,051	45,532
Property, plant and equipment	647,442	601,649	549,692	506,172	460,944
Accumulated depreciation and depletion	101,312	90,898	82,639	77,005	68,420
	546,130	510,751	467,053	429,167	392,524
Other assets and deferred charges	20,041	23,504	25,706	17,635	14,588
	$740,679	$681,672	$617,715	$555,689	$504,201
LIABILITIES:					
Current liabilities	$115,278	$119,493	$ 72,103	$106,216	$ 76,926
Long term debt	341,341	362,339	357,087	261,870	236,106
Deferred income taxes	21,492	18,609	16,224	12,285	8,891
Minority interest in subsidiary companies	1,221	1,197	2,114	12,482	15,549
Shareholders' Equity					
Preference shares	35,376	15,790	16,012	16,320	16,753
Common shares	125,161	72,940	72,940	72,926	72,712
Contributed surplus	3,523	3,364	3,293	3,233	3,195
Excess of net redetermined value of property, plant and equipment over depreciated book cost	14,494	14,808	15,024	15,761	17,576
Reinvested earnings	82,793	73,132	62,918	54,596	56,493
	261,347	180,034	170,187	162,836	166,729
	$740,679	$681,672	$617,715	$555,689	$504,201

Consolidated Statement of Changes in Financial Position ($000's)	1975	1974	1973	1972	1971
SOURCE OF WORKING CAPITAL:					
Cash flow from operations	$ 49,939	$ 43,828	$ 42,918	$ 39,796	$ 34,938
Issue of long term debt	41,900	30,000	104,728	32,000	50,000
Issue of preference and common shares	20,000	—	14	212	134
Sale of investment in shares of other companies	—	3,552	—	—	—
Reduction in mortgages receivable and other assets, net	2,815	1,134	800	206	(482)
ISSUE OF COMMON SHARES FOR CONVERTIBLE DEBENTURES	52,221	—	—	—	—
	166,875	78,514	148,460	72,214	84,590
USE OF WORKING CAPITAL:					
Net additions to property, plant and equipment	52,817	59,628	53,059	51,176	43,569
Investment in shares of subsidiary companies adjusted for working capital position at dates of acquisition	43	344	15,405	4,184	20,558
Investment in shares and warrants of Home Oil Company Limited	—	3,600	—	21,070	—
Investment in shares of other companies	5	898	1,128	101	80
Investment in Gas Arctic—Northwest Project Study Group	1,288	828	1,572	—	—
Deferral of increased cost of gas	—	—	3,703	3,560	—
Other reductions in non-current portion of long term debt excluding mortgages payable	10,232	23,610	9,947	6,616	5,073
Preference shares purchased for cancellation	255	151	248	377	423
Capital stock and debt issue costs, net	1,909	338	1,503	600	1,014
Dividends on preference and common shares	20,789	16,796	16,284	16,307	15,263
Decrease in mortgages payable, net	40	96	(436)	(382)	(199)
Miscellaneous items	194	764	1,121	(384)	1,590
EXCHANGE OF CONVERTIBLE DEBENTURES FOR COMMON SHARES	52,221	—	—	—	—
	139,793	107,053	103,534	103,225	87,371
Increase (decrease) in working capital position	$ 27,082	$ (28,539)	$ 44,926	$ (31,011)	$ (2,781)
Weighted average number of common shares outstanding during the year	18,219,408	17,510,173	17,509,896	17,506,093	17,490,886
Number of shareholders					
Common	29,517	27,323	28,026	29,895	26,168
Preferred	3,246	1,618	1,702	2,082	1,920

1970	1969	1968	1967	1966
$ 58,734	$ 44,189	$ 32,242	$ 28,310	$ 28,749
17,749	17,058	16,790	3,598	3,339
419,572	394,488	369,410	335,362	312,107
60,966	58,864	56,329	41,300	36,794
358,606	335,624	313,081	294,062	275,313
11,997	11,697	14,058	17,463	16,150
$447,086	$408,568	$376,171	$343,433	$323,551
$ 81,322	$ 45,136	$ 69,867	$ 32,958	$ 34,613
185,580	190,485	136,716	141,835	144,396
6,529	5,389	5,109	5,055	5,006
727	—	—	—	—
17,176	17,645	17,925	18,000	18,000
72,578	72,418	72,371	72,257	53,216
3,136	3,025	2,980	2,977	2,977
17,925	18,498	20,606	25,704	26,236
62,113	55,972	50,597	44,647	39,107
172,928	167,558	164,479	163,585	139,536
$447,086	$408,568	$376,171	$343,433	$323,551
$ 30,602	$ 27,572	$ 25,695	$ 23,892	$ 21,721
—	60,000	—	—	—
160	47	114	19,041	231
—	—	—	—	—
(370)	2,545	2,505	(1,344)	(1,157)
—		—		—
30,392	90,164	28,314	41,589	20,795
33,051	33,087	31,476	26,542	25,468
338	—	—	—	—
—	—	—	—	—
—	—	12,846	—	—
—	—	—	—	—
—	—	—	—	—
4,856	5,068	4,399	3,552	3,077
469	280	75	—	—
127	1,399	—	380	—
13,873	13,541	12,497	10,654	8,900
49	1,163	720	(991)	(1,366)
(730)	(1,052)	(722)	236	(1,260)
—	—	—	—	—
52,033	53,486	61,291	40,373	34,819
$ (21,641)	$ 36,678	$ (32,977)	$ 1,216	$ (14,024)
,476,077	17,468,215	17,460,727	16,527,768	15,847,870
27,255	26,526	25,205	25,477	22,757
2,032	2,116	2,218	2,263	2,290



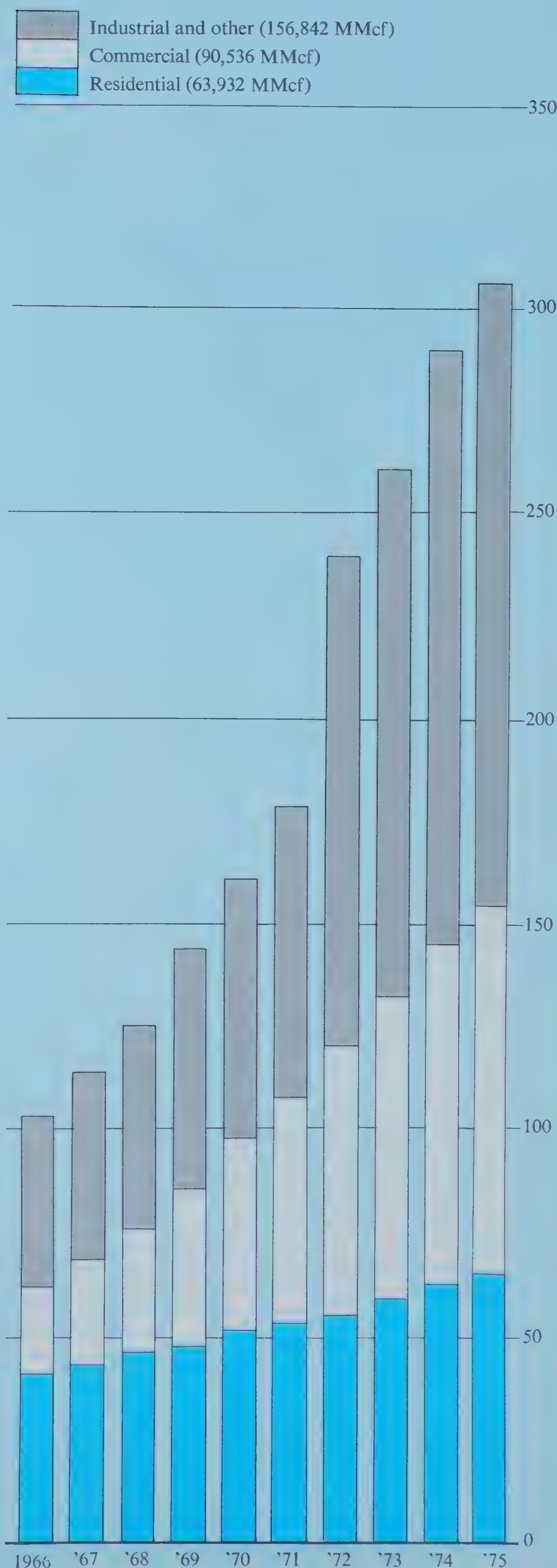
Financial and Operating Statistics—1966-1975 (cont'd)

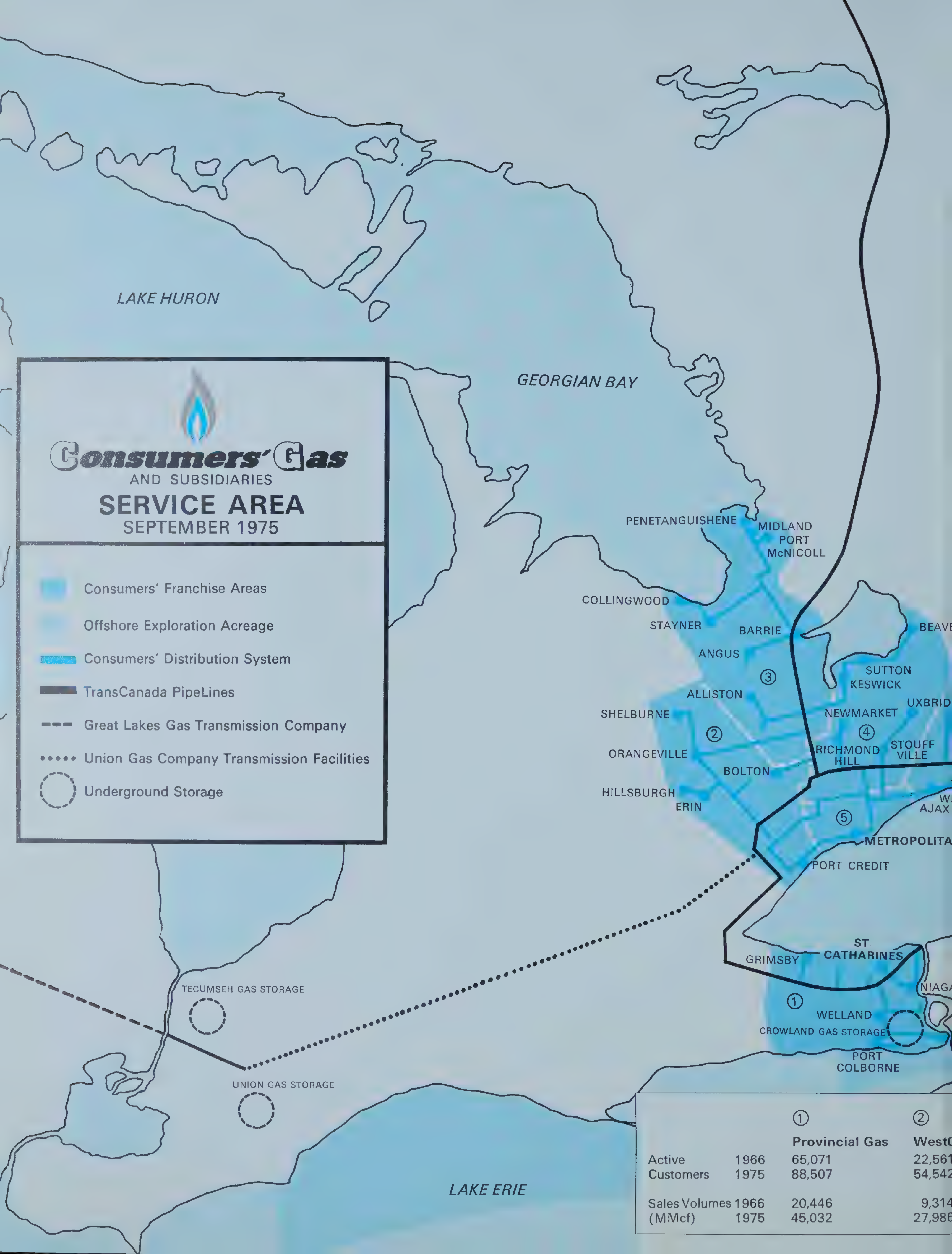
	1975	1974	1973	1972	1971
Gas supply and sendout—MMcf					
Natural gas purchased	**310,143**	303,571	277,030	229,907	174,966
Natural gas produced	**3,332**	3,002	3,006	2,651	1,676
Total gas supply	**313,475**	306,573	280,036	232,558	176,642
Gas into storage	**(56,439)**	(51,289)	(46,612)	(32,399)	(26,186)
Gas out of storage	**56,462**	36,984	30,704	42,281	30,979
Total gas sendout	**313,498**	292,268	264,128	242,440	181,435
Gas sales to customers—MMcf					
Residential	**63,932**	62,538	59,249	55,320	53,465
Commercial	**90,536**	82,814	73,794	65,969	54,651
Industrial and other	**156,842**	144,534	128,188	118,757	70,548
Total sales	**311,310**	289,886	261,231	240,046	178,664
Use by company	**539**	468	507	453	385
Unbilled and unaccounted for	**1,649**	1,914	2,390	1,941	2,386
	313,498	292,268	264,128	242,440	181,435
Maximum daily sendout Mcf	**1,450,800**	1,435,700	1,257,600	1,148,300	977,900
Minimum daily sendout Mcf	**306,100**	272,600	286,300	236,600	158,000
Average daily sendout Mcf	**859,000**	801,000	724,000	662,000	497,100
Degree day deficiency (Note 1)	**4,025**	4,171	4,082	4,237	4,277
Number of active customers (year end)					
Residential	**443,247**	427,181	406,596	391,270	375,275
Commercial	**42,295**	39,465	35,384	32,985	30,755
Industrial and other	**5,700**	5,585	5,415	5,295	5,176
Total	**491,242**	472,231	447,395	429,550	411,206
Cost to customers					
Average revenue per Mcf					
Residential	**$1.61**	$1.34	$1.27	$1.27	$1.26
Commercial	**$1.18**	$ .93	$ .85	$ .84	$ .85
Industrial and other	**$ .93**	$ .69	$ .62	$ .61	$ .63
Average use per residential customer—Mcf	**142.6**	145.0	143.2	141.0	141.7
Number of employees	**2,711**	2,703	2,550	2,379	2,322
Miles of mains in use	**8,682**	8,487	8,264	7,934	7,640
Population of area served	**4,305,000**	4,238,000	4,180,000	4,085,000	3,960,000

Note 1: Degree Day Deficiency figures given are those for the Toronto area. The deficiency is a measure of coldness during the heating season and is calculated by adding together the total number of degree days below 18° Celsius (°C) on those days when it did so. In previous years Degree Day Deficiency figures were calculated using 65° Fahrenheit (°F), rather than 18°C, as the base. In compliance with the designation of April 1, 1975 by the Metric Commission as the day for Canada to measure its temperature using the Celsius temperature scale, the Company has changed to reporting temperature sensitive statistics in Celsius instead of Fahrenheit.

1970	1969	1968	1967	1966
177,342	148,742	127,180	111,132	109,094
1,581	764	270	374	189
178,923	149,506	127,450	111,506	109,283
(40,908)	(24,039)	(22,256)	(16,305)	(18,093)
25,457	20,344	21,321	20,075	13,521
163,472	145,811	126,515	115,276	104,711
51,568	46,942	46,326	43,270	40,885
46,782	38,971	30,114	25,541	21,306
63,110	57,939	49,124	45,323	41,213
161,460	143,852	125,564	114,134	103,404
374	386	231	197	178
1,638	1,573	720	945	1,129
163,472	145,811	126,515	115,276	104,711
855,300	739,800	719,800	616,500	524,200
134,400	135,100	126,700	106,000	102,000
447,900	399,500	346,600	315,800	286,900
4,384	4,179	4,255	4,246	4,212
363,365	352,597	339,145	328,793	319,029
28,428	26,342	24,503	22,569	20,837
4,876	4,630	4,178	4,149	4,087
396,669	383,569	367,826	355,511	343,953
$1.26	$1.27	$1.27	$1.28	$1.28
$ .86	$ .87	$ .91	$ .93	$ .93
$ .63	$ .62	$ .63	$ .63	$ .60
141.0	132.8	135.8	130.8	126.8
2,377	2,221	2,142	2,166	2,053
7,461	7,321	7,084	6,841	6,433
862,000	3,765,000	3,682,000	3,610,000	3,490,000

Gas Sales to Customers (311,310 MMcf)





		① Provincial Gas	② West
Active Customers	1966	65,071	22,561
	1975	88,507	54,542
Sales Volumes (MMcf)	1966	20,446	9,314
	1975	45,032	27,986

ral	③ Georgian Bay	④ North Central	⑤ Metro Toronto	⑥ East Central	⑦ Eastern Ontario	⑧ Gazifère de Hull	⑨ St. Lawrence Gas
	4,871	7,821	207,352	13,018	13,098	4,050	6,111
	12,650	20,515	248,600	25,429	24,360	7,297	9,342
	2,211	2,173	50,560	4,139	8,644	2,590	3,327
	6,320	7,808	184,958	11,261	20,686	1,965	5,294

Corporate Information

The Consumers' Gas Company
Incorporated under the laws of the Province of Canada March 23, 1848
and continued as if incorporated under the laws of the Province of Ontario

Head Office
19 Toronto Street, Toronto, Ontario

Registrar and Transfer Agents

Common Shares and Preference Shares, Group 1

Canada Permanent Trust Company
20 Eglinton Ave. West, Toronto and in St. John's, Halifax, Charlottetown, Saint John, Montreal, Winnipeg, Saskatoon, Calgary and Vancouver

Bankers Trust Company
New York

Registrar and Transfer Agent

Convertible Preference Shares

The Canada Trust Company
110 Yonge St., Toronto and in Halifax, Montreal, Winnipeg, Regina, Calgary and Vancouver

Trustee and Registrar

Bonds

5%, 5½%, 4.85%, 8⅝%, 8%, 8¾%, 9⅛%, 11⅜% and 11½%
First Mortgage Sinking Fund Bonds
Canada Permanent Trust Company
320 Bay Street, Toronto

Trustee and Registrar

Debentures

4¾%, 5½%, 5⅝%, 5¾%, 6%, 6½% and 8% Sinking Fund Debentures
Crown Trust Company
302 Bay Street, Toronto

Trustee and Registrar

Debentures

8⅛% Sinking Fund Debentures
National Trust Company, Limited
21 King Street East, Toronto

Trustee and Registrar

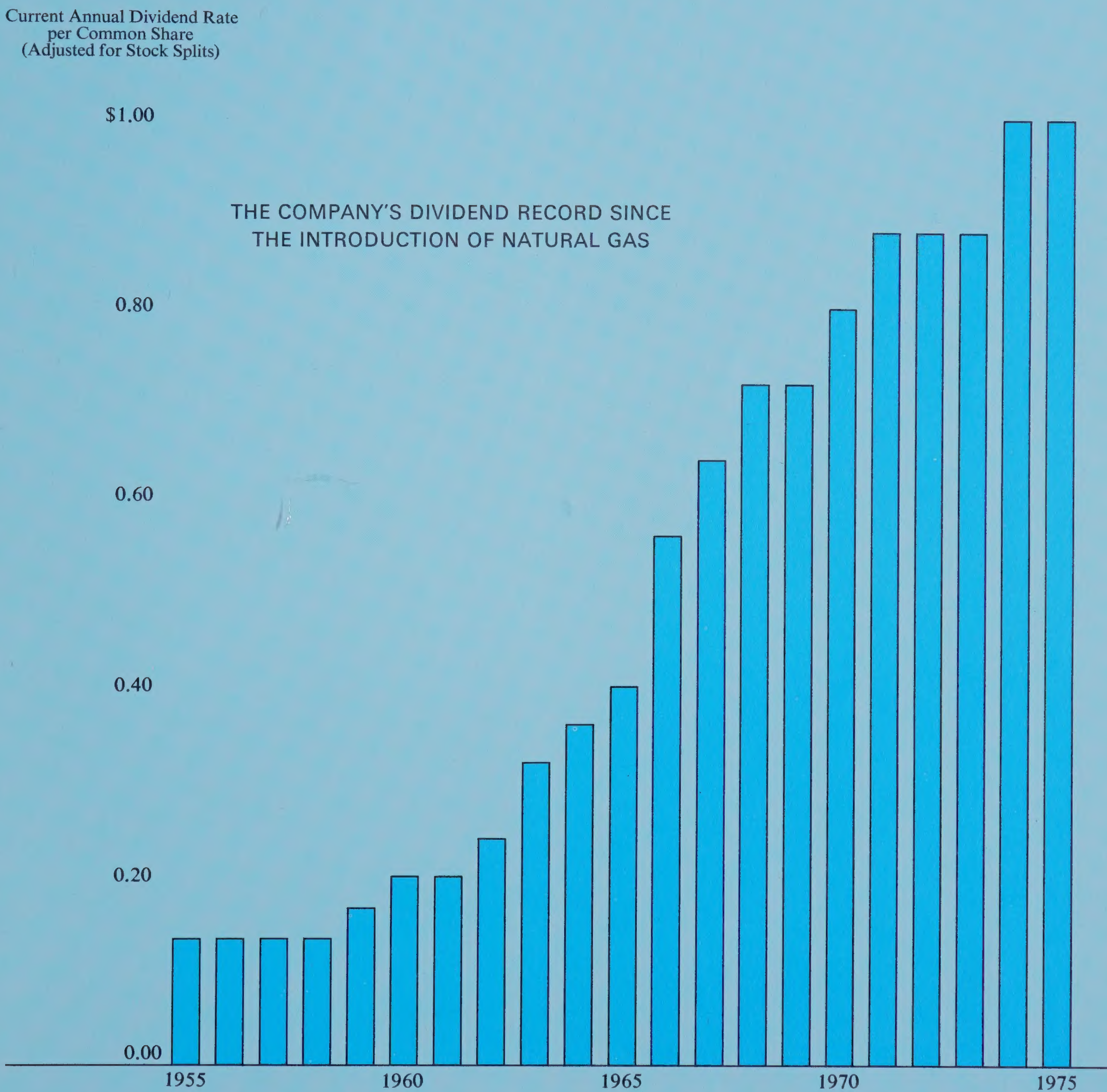
Convertible Debentures

5½% Convertible Sinking Fund Debentures
The Royal Trust Company
Royal Trust Tower, Toronto-Dominion Centre,
Toronto, Ontario

Common Shares

	1975	1974	1973	1972	1971
Shares Authorized	75,000,000	75,000,000	75,000,000	75,000,000	75,000,000
Shares issued at September 30	20,643,344	17,510,173	17,510,173	17,509,348	17,495,745
Additional shares which may be issued upon:					
Conversion of debentures	354,787	2,549,915	2,549,915	2,549,915	2,550,000
Conversion of preference shares	1,333,333	—	—	—	—
Exercise of Stock Options	37,557	86,957	89,757	53,425	70,093
Dividends declared per share	$1.00	$ .91	$ .88	$ .88	$ .82
Number of Shareholders at September 30	29,517	27,323	28,026	29,895	26,168
Distribution of Shares at September 30					
Canada	97.9%	97.3%	97.1%	97.1%	96.8%
Other	2.1%	2.7%	2.9%	2.9%	3.2%

A fair return on invested capital is an important element in a Company's ability to finance its future growth in the community it serves.



The Company has paid dividends continuously, without interruption, since 1848

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